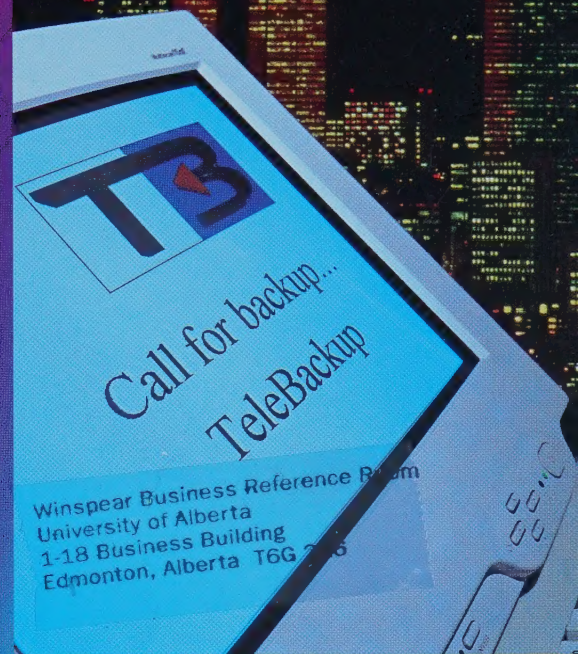
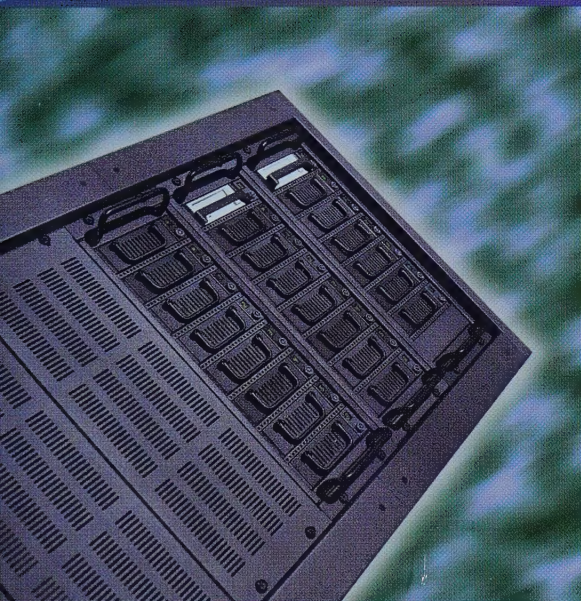


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# TELEBACKUP SYSTEMS INC. ANNUAL REPORT 1996



TELEBACKUP  
**TB**  
SYSTEMS INC.





# President's Message: Annual Report 1996

## Fiscal 1996: A Year of Challenge & Opportunity

TeleBackup Systems Inc. can look back upon fiscal 1996 as a year of significant challenges, and a year of significant advancement. TeleBackup Systems Inc. completed its Initial Public Offering on August 29, 1996. Trading began on the Alberta Stock Exchange September 16, 1996.

1996 was also the final year in which TeleBackup Systems Inc.'s primary focus was one of product development and testing, and R&D. 1997 will see the organization move ahead with a dualistic focus on continuous product development and enhancement, and a concurrent commitment to marketing, sales, market penetration, and growth.

At the end of fiscal 1996, TeleBackup Systems Inc. had completed a year of intense product development, enhancement, and testing, including nearly a year of beta field testing, on its flagship remote data backup product. The product, "TSInfoPRO" was released commercially in early January 1997. The TSInfoPRO flagship technology will serve as a foundation product, one which will evidence significant product enhancement moving forward into the future, but also act as a building block for an entire product family suite on which development is already underway.



## Looking Forward: 1997

We look forward to 1997 as a "coming out" year; one in which the organization will move ahead with its world-class technology, begin spinning out a product family, concentrate on the formation of important Strategic Alliances with large organizations in various industries, and begin the journey toward market share gain.

TeleBackup Systems Inc. is continually evolving as an organization. Not only is the organization growing in magnitude in terms of absolute size, but also in product depth, industry awareness and presence, the market lateralization. Very importantly, TeleBackup Systems Inc.'s new product lines under development will broaden the base of revenue streams available to the organization by targeting several niches in the Corporate 5000 market into which its various products will be launched. In fiscal 1997, two new products under development will be released and aimed at the Corporate market, each with significant competitive advantages.

In the second half of fiscal 1997, TeleBackup Systems Inc. will also begin to position itself to respond to international demand for its product lines. The TSInfoPRO product family can be considered a "global" technology in that, with very little modification to meet localized language requirements, the technology can meet the market-driven needs of computer users in a wide variety of international markets. The TSInfoPRO technology has already risen significant interest in the global marketplace, with the organization fielding many product licensing inquiries from abroad, originating from numerous different nations.



## **Recognition of Product Excellence**

Perhaps the most significant event in the organization's brief history occurred just after the close of the fiscal 1996 year. The Strategic Research Corporation, of Santa Barbara, Ca. released an independent, objective review of what it considered to be the only significant remote electronic data backup technology in use in the marketplace. We are proud to have had our TSInfoPRO technology ranked as the finest product available in the world today, as a result of this organization's investigative due diligence process. Due to its ranking, the TSInfoPRO technology was profiled in one of Strategic Research Corp.'s famous "Strategic Profile" white papers. The paper has been posted on that organization's web page at [www.sre-search.com](http://www.sre-search.com), which evidences up to 70,000 visits per year. The profile of the TeleBackup Systems Inc. organization and its technology cannot help but be raised to a new level due to this event. The significance of this report should not be understated, as Strategic Research Corporation, and its President, Michael Peterson, are widely recognized in the data backup and storage industry as being the industry's leading research firm, and its leading spokesperson. A true feather in the cap of the TeleBackup organization!

## **Investment Potential**

TeleBackup Systems Inc. will continue to hold fast to a clear mandate of building an organization with a strong foundation upon which to continuously accelerate growth. While revenue generation and profitability is obviously a clear goal of any organization, an organization structured for long-term success must focus on more than just the short-term bottom line. Factors such as market share gain, intelligent Strategic Partnering activities, a continuous commitment to product excellence and product line growth, skillful market targeting behaviours and opportunity identification, and the patience to attract the finest personnel available to form a well-meshed, aggressive, and productive organization are all key elements of sustainable organizational growth and profitability.

TeleBackup Systems Inc. is committed to the delivery of shareholder value. The organization will holistically pursue strategies and tactics which are directed at enhancing value for all stakeholders in the organization, not only in the short term, but for the future. We have only just arrived in the marketplace with our technology, and our organization's story is just beginning to unfold. 1997 is the year when our organization will begin to be recognized by a broad audience, not only in its local home market, but across North America, and the Globe.

## **1997 Target Activities**

- Market share penetration in relation to the adoption for use of our TSInfoPRO remote data backup technology, as well as new product lines.
- The 1997 release of two new products aimed at the data backup and information production needs of the Corporate 5000 marketplace.
- A continuous commitment to the enhancement of core and spinoff technologies. We are strongly committed to technology leadership in our target markets.
- A commitment to strong investor relations initiatives. Our organization will undertake to leverage its IR, marketing, and publicity drives into a strong, recognizable presence in the information technology industry, as well as the North American financial community.
- A commitment to holistic organizational growth.



## Future Outlook

The Management and personnel of the TeleBackup Systems Inc. organization are bullish on our future prospects. Our technology has been singled out by the industry's leading research firm as the finest of its kind, demonstrates significant competitive advantages, and is highly leveragable into various market niches in the data backup, storage, and information protection industry. We have staffed up with high quality employees who are dedicated to the future of the company, and are always on the lookout for individuals of significant talent. The Management group possess a clear direction for the organization in terms of product development, marketing and business strategy, financing strategy, and long-term growth. Significant opportunities are currently unfolding, and more lie ahead waiting to be captured. 1997 should be an exciting year for all stakeholders in the TeleBackup Systems Inc. organization.

## TSInfoPro Whole-Product Directions

### SCALEABILITY

*Small to Large  
System Configurations*

### PARTNERSHIPS

*Telcos, ISPs, Data Vaulters  
Software Developers  
Vertical Applications*

### TECHNOLOGY

*Partial File Technology  
Common File Agents  
Archive/Records Mgt.*

### MANAGEMENT TOOLS

*Web Interface  
Reporting  
Storage Resource Mgt.  
Systems Mgt.*

### COMPATIBILITY

*Additional Host Platforms  
Additional Client Agents*

### ADD-ON MODULES

*Anti-Virus  
Software Distribution  
TS InfoPRO-LAN*

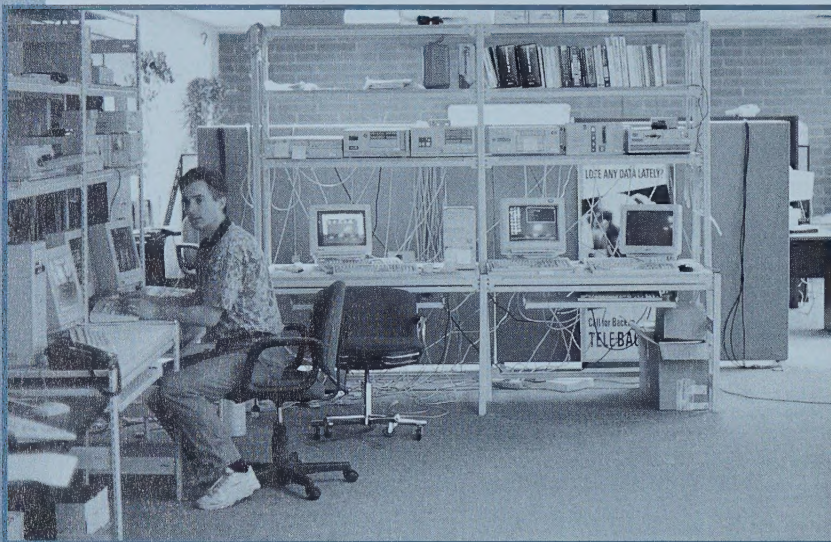
**TSInfoPRO**



# Operations Report

This has been the year of the commercial birth of TSInfoPro, Telebackup Systems Inc. flagship product. The last 12 months has seen our organization evolve this software product from a R&D project to a commercial product that has recently been judged by Strategic Research Corporation as a winner in the electronic vaulting (remote backup) field. At the same time, the company has established a comprehensive and effective infrastructure to support our customers in the installation, operation and maintenance of the product. We hold a fundamental belief that well-defined development and support processes are the key success factor in any software development undertaking. The Operations group focused on establishment of aggressive but achievable development plans, a robust development environment with the right tools and controls, good project management of client installations and very structured technical support process. With these efforts and a clear focus on our

market objectives, we have achieved a significant level of operational excellence for both our product and our support of the product.



Primary to our operational success this year has been the rapid evolution of the TSInfoPRO product. The early ALPHA product has, through several release cycles during the year, evolved through BETA and initial production versions to the current production release (Version 2). TSInfoPRO Version 2 is an easily installed, simple to set-up and completely automatic remote backup product that supports

the storing and retrieval of the contents of PC hard drives. It is the leading software product available to support user-file protection and system backup & recovery for workgroups or desktops using remote dial-up (WANs). We continue to rapidly develop the products function over 1997. This evolution will include expanded platform support with Windows NT, addition of partial file backup support, implementation of complete system recovery capability and much more. Additionally, the product will be enhanced to provide full support for remote high-speed networks and local area networks (LANs) positioning it to effectively provide enterprise backup for departmental workstations.

In addition, we have identified a family of products which will be developed during 1997 that builds on the basic architecture of our current product to provide a strong compliment of information management and disk management tools for the PC.

As the TSInfoPRO was evolving rapidly, our organization has moved to implement and entrench superior technical support for the customer purchasing the software and turnkey system. We recognize that no matter how good our product is, without the proper technical support capability, success will be impossible. This means being able to deliver product



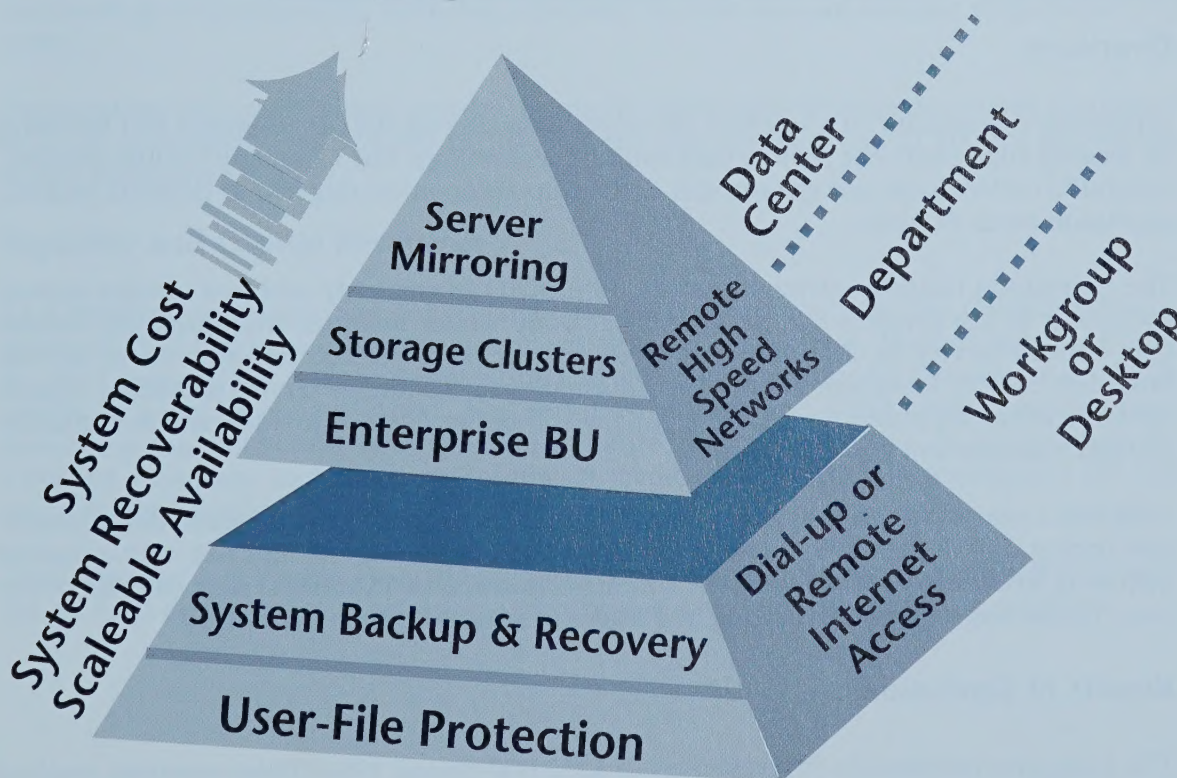
to the customer, to implement the product for the customer, to educate the customer and to address customer problems to get them operational and to keep them operational!

To meet our organizations objectives for superior customer support we have established a defined implementation plan with clearly defined project responsibility. The establishment of this formal plan significantly improves the opportunity for successful installation but must be accompanied by an on-going problem management process that ensures rapid response to operational issues as they happen. Our organizations commitment to this on-going need is reflected in the formal help desk infrastructure put in place over the year. This includes toll free problem reporting & automated problem tracking and management.

The establishment of the formal support function combined with the establishment and successful execution of strong product development plans has delivered the quality product we currently have and will continue to deliver to our customers ever better and broader product function throughout 1997 and beyond. It is obvious though that process, plans, and procedures do not produce or deliver product. People do!!

And our staff, expanded and improved over 1996 has had to be focused and dedicated to deliver the progress our organization has made. Ultimately it will be a continuation of our commitment to recruiting high quality experience staff that will guarantee the success of our efforts.

## REMOTE VAULTING HIERARCHY





# **Managements' Discussion and Analysis of Financial Condition and Results of Operations**



## **Overview**

Telebackup Systems Inc. is a software developer focussing on the development and licensing of leading-edge electronic remote data vaulting technology. The Company's initial product, TSInfoPRO offers local and remote dial up backup automation targeted at desktop, mobile, and stand alone PC users.

The Company's flagship software product, TSInfoPRO, is currently sold as a turnkey system consisting of the computer software and hardware which provides an automated, remote data backup service to PC users. The Company markets the turnkey systems to Service Providers. Service Providers are on-line information or computer service providing organizations such as telephone and cable companies, internet service providers and information systems management organizations.

1996 was a year in which the Company was primarily engaged in the research, development and testing of TSInfoPRO. The Company is less than two years old and has only a limited operating history to date but with the commercialization of TSInfoPRO near the end of the year, Telebackup is poised to become the leader of remote backup technology.

## **Results of Operations**

The Company recorded its first revenues of \$252,000 during 1996. These revenues resulted from the sale of the three beta test systems. With the testing of the initial product nearing



completion, the three service providers who originally assisted in field testing, proceeded to purchase the systems and offer the backup services on a commercial basis. Due to the support given by the three service providers during the testing stage, actual sales revenues for the three beta systems are lower than comparable commercial systems currently being marketed.

Cost of sales consists primarily of the costs of the hardware for the three turnkey systems.

The Company's general and administration, and selling and marketing expenses for the current year were \$497,000 and \$307,000 respectively compared to \$37,000 and \$14,000 for the prior period. The increase in administrative costs reflects costs of additional staff and related overhead and facilities costs. As at December 31, 1996 the Company had 16 full time employees compared to 5 full time employees as at December 31, 1995. Selling and marketing expenses largely consists of compensation of the sales and marketing personnel and related overhead expenses and other expenses associated with the sales and marketing of the Company's initial product.

The Company has entered into a Marketing and Royalty Agreement with the original founder of the software. The Agreement gives the Company the exclusive world wide rights to market, sublicense and further develop the software. The Company in return, is obligated to pay an annual royalty, effective January 1, 1996, equal to the greater of 10% of the software revenues or \$25,000 per quarter. During the year \$100,000 of royalties were paid.

Research and development expenses consist primarily of the operations personnel expenses, facilities and equipment costs. The Company presently expenses all research and development costs as incurred. Total research and development costs for the year were \$303,000.

Interest expense has been incurred by the Company under its bank line of credit. Total debt outstanding at December 31, 1996 was \$350,000. No debt was outstanding at December 31, 1995.

Depreciation and amortization expense, primarily attributable to equipment used to support ongoing operations, was \$24,000 for the current year compared to \$1,600 for the period ended December 31, 1995.

## **Liquidity and Capital Resources**

As a result of completing our Initial Public Offering during the year, the Company has in excess of \$925,000 in cash and short term investments. In addition, prior to becoming public, the Company has refundable Scientific Research and Experimental Development (SRED) credits of approximately \$50,000. Any additional investment SRED credits earned subsequent to going public will be used to reduce future income tax payable. As at December 31, 1996 the Company had an operating line of credit of \$350,000 and repayments are not required until January 1, 1998.

The Company is currently evaluating alternative capital sources, including the public market, to fund rapid market penetration and continue development of the new products.



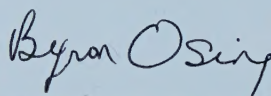
# Management's Report to the Shareholders

The accompanying financial statements of Telebackup Systems Inc. are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in accordance with generally accepted account principles. Financial information throughout the Annual Report is consistent with the financial statements.

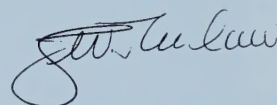
Management ensures the integrity of the financial statements by maintaining quality systems of internal control. Procedures and policies are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded, and that the financial records are reliable for preparation of the financial statements.

KPMG, the Company's external auditors, have conducted an examination of the financial statements in accordance with generally accepted auditing standards and have provided an independent opinion.

The Board of Directors are responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee which is appointed by the Board and is comprised of Directors who are not employees of the Company. The Committee meets periodically with management and the external auditors to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements, the Management's Discussion and Analysis and the external Auditors Report before they are presented to the Board of Directors.



Dr. Byron G. Osing  
President and Chief Executive Officer



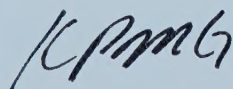
Lynn W. Thurlow, C.A.  
Chief Financial Officer

# Auditors' Report to the Shareholders

We have audited the balance sheets of Telebackup Systems Inc. as at December 31, 1996 and 1995 and the statements of operations and deficit and changes in financial position for the year ended December 31, 1996 and the period from incorporation on May 5, 1995 to December 31, 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the year ended December 31, 1996 and the period from incorporation on May 5, 1995 to December 31, 1995 in accordance with generally accepted accounting principles.



Chartered Accountants  
Calgary, Canada, April 2, 1997



# TELEBACKUP SYSTEMS INC.

## Balance Sheets

December 31, 1996 and 1995

	1996	1995
<b>Assets</b>		
Current assets:		
Cash and temporary investments	\$ 925,128	\$ 37,128
Accounts receivable	4,456	5,374
Investment tax credit receivable	50,000	20,000
Due from shareholders	—	31,600
Inventory	121,623	—
Prepaid expenses	3,842	16,060
	1,105,049	110,162
Capital assets (note 3)	205,975	46,456
Software development costs	—	37,673
	\$ 1,311,024	\$ 194,291

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 126,505	\$ 74,736
Long-term debt (note 4)	350,000	—
Shareholders' equity:		
Share capital (note 5)	2,028,709	172,308
Deficit	(1,194,190)	(52,753)
	834,519	119,555
Future operations (note 1)		
Commitment (note 7)		
	\$ 1,311,024	\$ 194,291

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director



# TELEBACKUP SYSTEMS INC.

## Statements of Operations and Deficit

Year ended December 31, 1996 and period from incorporation on  
May 5, 1995 to December 31, 1995

	1996	1995
Revenue	\$ 251,884	\$ -
Expenses:		
Cost of sales	149,417	-
General and administrative	496,753	37,148
Selling and marketing	306,870	14,028
Marketing and royalty agreement	100,000	-
Research and development	302,650	-
Interest and bank charges	13,514	-
Depreciation and amortization	24,117	1,577
	1,393,321	52,753
Net loss	1,141,437	52,753
Deficit, beginning of period	52,753	
Deficit, end of period	\$ 1,194,190	\$ 52,753
Net loss per share	\$ 0.18	\$ 0.03

*See accompanying notes to financial statements.*



# TELEBACKUP SYSTEMS INC.

## Statements of Changes in Financial Position

Year ended December 31, 1996 and period from incorporation on  
May 5, 1995 to December 31, 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Net loss	\$ (1,141,437)	\$ (52,753)
Items not involving cash:		
Depreciation and amortization	24,117	1,577
Software development costs	37,673	—
Net change in non-cash working capital balances	(55,118)	1,702
	(1,134,765)	(49,474)
Investments:		
Software development costs, net		(37,673)
Net additions of capital assets	(183,636)	(48,033)
	(183,636)	(85,706)
Financing:		
Issue of share capital	1,856,401	172,308
Net borrowings	350,000	
	2,206,401	172,308
Increase in cash	888,000	37,128
Cash, beginning of period	37,128	
Cash, end of period	\$ 925,128	\$ 37,128

See accompanying notes to financial statements.



# TELEBACKUP SYSTEMS INC.

## Notes to Financial Statements

Year ended December 31, 1996 and period from incorporation on May 5, 1995 to December 31, 1995

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### Corporate profile:

The Company was incorporated on May 5, 1995 under the name 653547 Alberta Ltd. On August 10, 1995 the Company's name was changed to Telebackup Systems Inc.

The Company develops and markets computer software designed to allow service providers to offer data backup via a modem.

### 1. Future operations:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Company is in the early stage of the commercialization of its initial flagship product and has no established history of generating positive cashflow. Having recently completed the development and testing stage of its initial product, the Company has now actively begun the marketing and sales efforts so as to achieve a commercial level of operations.

The application of the going concern concept is dependent upon the Company achieving a commercial level of operations. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, and in the balance sheet classifications used.

### 2. Significant accounting policies:

#### (a) Capital assets:

Capital assets are recorded at cost.

Depreciation is provided using the following methods and rates:

Assets	Method	Rate
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	30%
World rights	Straight-line	20%

#### (b) Software research and development costs:

Research costs are expensed as incurred. Costs related to internal development of software are expensed as incurred unless criteria for deferral and subsequent amortization are met. Specifically, internal software development costs are deferred once technological feasibility for a product is established. As at December 31, 1996, the Company has no deferred internal software development costs, as completed development has coincided with technological feasibility. Software development costs of \$37,673 deferred prior to December 31, 1995 were expensed in 1996. ➤



# TELEBACKUP SYSTEMS INC.

## Notes to Financial Statements

Year ended December 31, 1996 and period from incorporation on May 5, 1995 to December 31, 1995

(c) Investment tax credits:

Scientific Research and Experimental Development ("SRED") investment tax credits are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. The Company accounts for investment tax credits using the cost reduction method.

(d) Inventory:

Inventory, consisting primarily of turnkey computer systems assembled for demonstration purposes and ultimate sale, is recorded at the lesser of cost determined on a first-in first-out basis and market value.

(e) Per share data:

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Fully diluted per share data has not been disclosed as the effect of the exercise of share options is not dilutive.

### 3. Capital assets:

1996	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 168,653	\$ 21,350	\$ 147,303
Furniture and fixtures	13,016	1,844	11,172
World rights	50,000	2,500	47,500
	\$ 231,669	\$ 25,694	\$ 205,975

1995	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 48,033	\$ 1,577	\$ 46,456

On June 15, 1996, the Company acquired the worldwide licensing and marketing rights for the Telebackup software for \$50,000.

### 4. Long-term debt:

The Company has a \$350,000 operating line of credit due on demand. Borrowings bear interest at bank prime rate plus three percent. The operating line is renewable annually, however no principal payments are required prior to January 1, 1998 providing certain conditions continue to be satisfied.



# TELEBACKUP SYSTEMS INC.

## Notes to Financial Statements

Year ended December 31, 1996 and period from incorporation on May 5, 1995 to December 31, 1995

### 5. Share capital:

(a) Authorized:  
Unlimited number of Common Shares.

(b) Issued:

	Number	Amount
Issued for cash and \$22,064 of services	1,500,000	\$ 22,214
Issued for cash	937,500	94
Issued pursuant to private placement for cash	300,000	150,000
December 31, 1995	2,737,500	172,308
Share split 2:1 basis	2,737,500	—
Issued for cash, net of issue costs of \$338,599	1,600,000	1,661,401
Issued pursuant to private placement for cash	195,000	195,000
December 31, 1996	7,270,000	\$ 2,028,709

On January 31, 1996, the shareholders of the Company approved a two for one Common Share split which became effective February 16, 1996.

(c) Stock options:

During 1996, options were issued to employees and directors which will allow for the purchase of 515,000 Common Shares at \$1.25 per share. These options expire on various dates during 2001.

### 6. Income taxes:

Income tax expense differs from the amount which would be computed by applying the federal and provincial combined statutory income tax rate to income before income taxes. The reasons for the difference are as follows:

	1996	1995
Income tax rate	44.6%	44.3%
Computed expected tax recovery	\$ (509,081)	\$ (23,370)
Non-deductible items	743	343
Unrecognized benefit of tax losses	508,338	23,027
Provision for income taxes	\$ —	\$ —



# TELEBACKUP SYSTEMS INC.

## Notes to Financial Statements

Year ended December 31, 1996 and period from incorporation on May 5, 1995 to December 31, 1995

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### 6. Income taxes (*continued*):

The Company has available deductions for income tax purposes of approximately \$900,000 consisting of SRED expenditures and operating losses. The operating losses begin expiring in 2002. The Company also has available SRED investment tax credits to reduce future income tax payable of approximately \$ 20,000.

The Company earned refundable SRED investment tax credits prior to becoming a public company. These credits are shown as current assets and are subject to technical and financial audit by Revenue Canada.

### 7. Commitment:

On December 29, 1994, the Company entered into an agreement which allows the Company utilization of certain technology rights in exchange for a royalty commitment.

### 8. Related parties:

During the period the Company purchased computer equipment totalling \$278,975 (1995 - \$45,443) from a shareholder. Included in accounts payable is \$nil (1995 - \$49,020) due to a shareholder.

The Company leases office space from a shareholder for \$3,600 per month.

### 9. Financial instruments:

The carrying value of cash and temporary investments, accounts receivable, accounts payable and long-term debt approximate their fair values.

### 10. Comparative Figures:

Certain of the prior period figures have been reclassified to conform with the current years presentation.



# Corporate Information

## Board of Directors

Dr. Byron Osing  
President & Chief Executive Officer

William Copithorne  
President of Elbow River Ranch

Fred Callaway \*+  
President of Kroes Energy Inc.

Gary Hadford \*+  
Vice President of DMR Group Inc.

Irphan (John) Rajani \*  
Vice-President and principal  
owner of Zentra Computer  
Technologies Inc.

Scott Wagner  
President and principal  
owner of Zentra Computer  
Technologies Inc.

## Corporate Officer

Dr. Byron Osing  
President & Chief Executive Officer

Lynn W. Thurlow C.A.  
Chief Financial Officer

Thomas Glassford  
Chief Operating Officer

Conrad Drapeau  
Vice-President of Sales

## **Listed On**

Alberta Stock Exchange

## **Trading Symbol**

TBP

## **Auditors**

KPMG, Calgary, Alberta

## **Legal Council**

Parlee McLaws, Calgary, Alberta

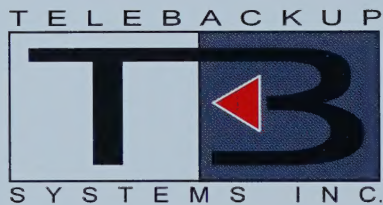
\* Member of Audit Committee

+ Member of Compensation Committee









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